

**REPORT OF THE AUDIT OF THE
SCOTT COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period
May 1, 2008 Through April 30, 2009**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE 502.564.5841
FACSIMILE 502.564.2912**

EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
SCOTT COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period
May 1, 2008 Through April 30, 2009**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2008 Taxes for the Scott County Sheriff for the period May 1, 2008 through April 30, 2009. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$23,896,915 for the districts for 2008 taxes, retaining commissions of \$821,365 to operate the Sheriff's office. The Sheriff distributed taxes of \$22,983,823 to the districts for 2008 taxes. Taxes of \$10,394 are due to the districts from the Sheriff and refunds of \$7,614 are due to the Sheriff from the taxing districts.

Report Comment:

- The Sheriff Should Implement Control Procedures To Improve Financial Accountability Over Tax Collections

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable George Lusby, Scott County Judge/Executive

Honorable Bobby Hammons, Scott County Sheriff

Members of the Scott County Fiscal Court

Independent Auditor's Report

We have audited the Scott County Sheriff's Settlement - 2008 Taxes for the period May 1, 2008 through April 30, 2009. This tax settlement is the responsibility of the Scott County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Scott County Sheriff's taxes charged, credited, and paid for the period May 1, 2008 through April 30, 2009, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated January 29, 2010 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable George Lusby, Scott County Judge/Executive
Honorable Bobby Hammons, Scott County Sheriff
Members of the Scott County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff Should Implement Control Procedures To Improve Financial Accountability Over Tax Collections

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

January 29, 2010

SCOTT COUNTY
BOBBY HAMMONS, SHERIFF
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period May 1, 2008 Through April 30, 2009

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,981,827	\$ 3,187,438	\$ 12,782,783	\$ 4,085,215
Tangible Personal Property	207,854	326,330	789,989	840,951
Increases Through Exonerations	5,096	8,194	32,792	10,315
Franchise Taxes	111,851	177,962	557,863	
Inventory In Transit		68,108		
Additional Billings	1,504	2,425	9,590	2,982
Oil Property	4	6	26	8
Limestone, Sand and Mineral Reserves	514	827	3,318	1,046
Penalties	9,061	14,556	57,623	18,586
Gross Chargeable to Sheriff	2,317,711	3,785,846	14,233,984	4,959,103
<u>Credits</u>				
Exonerations	10,136	16,202	54,181	22,172
Discounts	36,485	59,905	226,067	82,188
Delinquents:				
Real Estate	65,103	104,707	419,915	132,376
Tangible Personal Property	4,705	7,413	18,712	20,046
Oil Property	4	6	26	8
Franchise Taxes	15,697	25,064	78,611	
Total Credits	132,130	213,297	797,512	256,790
Taxes Collected	2,185,581	3,572,549	13,436,472	4,702,313
Less: Commissions *	93,175	151,833	376,221	200,136
Taxes Due	2,092,406	3,420,716	13,060,251	4,502,177
Taxes Paid	2,083,264	3,413,805	12,999,369	4,487,385
Refunds (Current and Prior Year)	8,781	14,109	51,065	14,992
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	\$ 361	\$ (7,198)	\$ 9,817	\$ (200)

* And ** See Next Page.

The accompanying notes are an integral part of this financial statement.

SCOTT COUNTY
BOBBY HAMMONS, SHERIFF
SHERIFF'S SETTLEMENT - 2008 TAXES
For The Period May 1, 2008 Through April 30, 2009
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	10,450,443
2.8% on	\$	13,436,472

** Special Taxing Districts:

Library District	\$	(7,414)
Health District		185
Extension District		<u>31</u>

Due Districts or (Refund Due Sheriff)	\$	<u><u>(7,198)</u></u>
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SCOTT COUNTY
NOTES TO FINANCIAL STATEMENT

April 30, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Scott County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

SCOTT COUNTY
NOTES TO FINANCIAL STATEMENT
April 30, 2009
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Scott County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 30, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2008. Property taxes were billed to finance governmental services for the year ended June 30, 2009. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 20, 2008 through April 30, 2009.

Note 4. Interest Income

The Scott County Sheriff earned \$5,411 as interest income on 2008 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office. As of January 29, 2010, the Sheriff owed \$56 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fees

The Scott County Sheriff collected \$76,189 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office. As of January 29, 2010, the Sheriff owed \$2,101 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Scott County Sheriff collected \$4,390 of advertising costs and \$8,040 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable George Lusby, Scott County Judge/Executive
Honorable Bobby Hammons, Scott County Sheriff
Members of the Scott County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Scott County Sheriff's Settlement - 2008 Taxes for the period May 1, 2008 through April 30, 2009, and have issued our report thereon dated January 29, 2010. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Scott County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Scott County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Scott County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we have identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff Should Implement Control Procedures To Improve Financial Accountability Over Tax Collections



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Scott County Sheriff's Settlement - 2008 Taxes for the period May 1, 2008 through April 30, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Scott County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Scott County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

January 29, 2010

COMMENT AND RECOMMENDATION

SCOTT COUNTY
BOBBY HAMMONS, SHERIFF
COMMENT AND RECOMMENDATION

For The Period May 1, 2008 Through April 30, 2009

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Sheriff Should Implement Control Procedures To Improve Financial Accountability Over Tax Collections

As a result of procedures conducted during the audit, it was determined that internal controls over tax collections and disbursements should be implemented to improve financial accountability.

- The tax collectors (Sheriff, bookkeeper, and deputy) reconcile their collections per drawer with the tax collection report each day. They indicated their agreement with the tax collection report by initialing the section applicable of the report. Someone else should recount their tax collections in their presence and initial the applicable section of the tax collections report.
- At the end of each day, the bookkeeper compares bank deposits (collections) and total collected per daily tax collection report for agreement. She initials the tax report to document her work. We recommend that someone else review her work. This review should be documented by initialing the applicable part of the report.
- The bookkeeper collects and distributes franchise taxes. No one else compares bank deposits to paid franchise tax bills, reviews detailed franchise tax reports, and reviews the amounts placed on the monthly tax reports to make sure the franchise tax distribution is correct. We recommend that the Sheriff's bookkeeper continue to prepare the deposit slips for franchise tax collections. A different deputy should compare paid franchise tax bills to bank deposits and prepare the detailed franchise tax reports. The bookkeeper should review these reports and initial that this work is correct. The deputy should review the monthly tax reports to the districts, to make sure that the correct distribution is reported.
- The bookkeeper prepares the monthly tax reports to the taxing districts. These reports are reviewed by comparing checks written to the amounts listed on reports. We recommend that amounts listed on the monthly reports are compared to supporting documentation such as franchise collection reports, refund reports, and tax collection reports. These reports should also be reviewed for mathematical accuracy.
- The Sheriff should assign someone other than the bookkeeper to complete a "Determination of Fund Balance" for the tax account at the end of each month. The bookkeeper should review the deputy's work and sign off when it is complete and accurate.

Sheriff's Response: None.

